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Motor Vehicle Dealers

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This guide provides retail sales tax information for motor vehicle dealers and others who may sell, lease or repair motor vehicles.

SALES OF VEHICLES

Where you make a sale in Ontario and the vehicle is delivered to your customer in Ontario, tax must be charged on your selling price unless the purchaser is exempt from the tax or the customer is a dealer purchasing for resale who provides you with a valid purchase exemption certificate. The price on which retail sales tax is to be charged at 8% includes:

- net price after trade-in
- all applicable new tire tax and gas-guzzler tax
- charges for warranty or extended warranty
- pre-delivery service charges
- freight charges to the dealer's sales lot
- rustproofing and finish protection
- administration charges for licensing and preparing documentation.

Tax does not apply to the following charges if shown separately on the sales document:

- gas
- licence.

NEW TIRE TAX

Effective June 1, 1989, a \$5 tire tax applies to all new pneumatic tires.

A pneumatic tire is any tire requiring inflation by air pressure. The new tire tax applies to original and replacement tires (including spare tires known as "doughnuts") purchased for use on vehicles such as:

- passenger cars, vans, light trucks
- motor homes, motor cycles and off-road vehicles
- recreational trailers, utility trailers and other vehicles designed for towing behind a motor vehicle
- commercial vehicles and construction equipment.

A customer who pays to upgrade tires **after** taking delivery of a new car is required to pay tire tax on the original tires and the upgraded tires.

On promotional sales, such as two tires for the price of one, the customer must pay tire tax on each tire included in the sale.

Dealers should show the tire tax separately on each invoice and in their records. Include the tire tax with the retail sales tax reported on line 2 of your tax returns.

GAS-GUZZLER TAX

Effective July 1, 1989, new passenger cars that consume 9.5 litres (or more) of gasoline or diesel fuel per 100 kilometres of highway driving are subject to a gas-guzzler tax payable on purchase.

The gas-guzzler tax is graduated into four levels as follows:

| Highway Fuel Consumption Ratings (Litres per 100 Kilometres) | Tax |
|---|---------|
| 9.5 to 12.0 | \$600 |
| 12.1 to 15.0 | \$1,200 |
| 15.1 to 18.0 | \$2,200 |
| over 18.0 | \$3,500 |

If fuel consumption ratings are not available when a car is sold, the maximum gas-guzzler tax of \$3,500 will apply.

The Retail Sales Tax Branch will produce a listing of cars subject to gas-guzzler tax based on Transport Canada highway fuel consumption ratings.

Dealers should show the gas-guzzler tax separately on each invoice and in their records. Include the tax with the retail sales tax and any new tire tax reported on line 2 of your tax returns.

TAX EXEMPT VEHICLE SALES

Retail sales tax, including the new tire tax and gas-guzzler tax, does not apply to the following:

- sales to status Indians living on reserves if the motor vehicle is registered to an address on the reserve; Indians must present their federal identification card and the dealer must record the card number on the sales document.
- sales to people holding diplomatic exemption cards; diplomatic personnel must present their diplomatic exemption card and the dealer must record the card number on the sales document.

VEHICLE SALES TO FARMERS

Farmers must pay retail sales tax, including all applicable tire taxes, on the purchase of trucks, vans, automobiles and all-terrain vehicles. Repair parts for these vehicles are also taxable.

Farmers who purchase new fuel-inefficient automobiles will also be required to pay gas-guzzler tax as outlined above.

Farmers who convert a motor vehicle within 30 days of purchase into an unlicensed self-propelled vehicle for specific farm use may apply for a refund of tax.

VEHICLE SALES TO OUT-OF-PROVINCE PURCHASERS

The sale of a vehicle to an out-of-province purchaser, including an American visitor, is subject to Ontario retail sales tax, including all applicable tire tax and gas-guzzler tax, when delivery is taken in Ontario. If the vehicle is permanently removed from Ontario within 30 days from the date of purchase, the purchaser may apply to the Retail Sales Tax Branch for a tax refund. A refund cannot be obtained if the vehicle is kept in Ontario more than 30 days. Refund application forms and an explanatory sales tax guide are available at any Retail Sales Tax Office.

A dealer who ships a vehicle directly out of Ontario does not have to charge tax to the out-of-province purchaser. The dealer must retain the relevant documents proving shipment.

Non-resident purchasers taking delivery in Ontario do not have to pay tax if they provide licence plates from their home province or state to the Ontario dealer at the time of purchase. To support the tax exemption, the vendor must record the licence number and province or state of issue on the sales document.

A dealer must not accept a Temporary Trip Permit as proof that a vehicle will be removed from Ontario for permanent use outside the province. A purchaser with such a permit must pay tax and apply for a refund from the Retail Sales Tax Branch provided the vehicle is permanently removed from Ontario within 30 days of purchase. However, tax does not have to be charged to a bona fide out-of-province dealer, including an American dealer, taking a vehicle out of Ontario under the authority of a Temporary Trip Permit. In this case, the Ontario dealer must record the Temporary Trip Permit number on the sales document and obtain a Purchase Exemption Certificate from the dealer.

VEHICLE SALES TO SERVICE CLUBS, ETC.

An organization purchasing a vehicle to be given away as a prize must pay tax at the time of purchase. If the winner of the vehicle chooses to take cash instead and the vehicle is returned to the dealer, a refund of tax may be made by the dealer to the organization on the amount refunded for the return of the vehicle.

PRICE ALLOWANCE FOR TRADE-INS AT TIME OF SALE

Time of Sale

A trade-in may reduce the taxable amount if a written offer to purchase another vehicle is accepted by the dealer at the time of trade-in and the trade-in forms part of the transaction within the terms set out in the offer to purchase.

Where a vehicle is accepted as a trade-in with no written offer to purchase another vehicle at that time, the trade-in value cannot be used to reduce the taxable value of a sale at some future date.

Trade-in Value

Trade-ins must consist of items that are taxable at the time of trade-in, such as automobiles, trucks, motorcycles, boats or other similar taxable goods. Where exempt goods are accepted as trade-ins, the trade-in value does not reduce the taxable sale value.

Documentation Charges

Documentation charges by a dealer to process a trade-in are taxable.

VEHICLE MANUFACTURERS' REBATES

A rebate provided by a vehicle manufacturer to the retail purchaser of a motor vehicle does not reduce the taxable amount. Retail sales tax must be calculated on the price negotiated between the purchaser and the dealer without any allowance for any rebate received by the purchaser from the vehicle manufacturer. This applies whether the rebate is paid directly to the purchaser or is assigned by the purchaser to the dealer.

In some cases, a dealer may participate financially in the manufacturer's rebate program. If the dealer's portion of the rebate is shown clearly and separately on the sales agreement as a discount to the customer, tax need be charged only on the net amount after deducting the dealer's portion of the rebate.

See also Manufacturers' Rebates on Leased Vehicles.

INCENTIVE PROGRAMS

Dealers or manufacturers may offer certain options free or at a reduced price as part of the sale of a vehicle. In this case, the dealer charges tax to the purchaser on the price agreed upon for the vehicle including the additional options. No tax is payable by either dealers or manufacturers on their cost of the additional options provided to customers under these circumstances.

Dealers may offer gifts to attract potential customers to their showrooms. This is usually done when new models are introduced. The dealer is required to pay tax on the cost of the items given away under such circumstances. Dealers who give tires away as a promotion must pay tire tax on each tire.

SALES TAX ADJUSTMENTS

Sales tax may be refunded in the following circumstances:

- a) The tax payable and collected on the purchase price has been overstated by reason of a clerical or arithmetical error.
- b) The sale is cancelled and the original sale price is fully or partially refunded on return of the vehicle.
- c) The vehicle is found to be defective or damaged in the course of delivery, and the dealer refunds some or all of the total selling price in order to satisfy the defect or damage reported.
- d) Part of the sale price is refunded due to an accessory on the vehicle being returned, e.g. return of stereo system, styled or special wheels, wheel covers, tires, mirrors.
- e) The vehicle was purchased for immediate resale by a bona fide dealer who now provides you with a valid Purchase Exemption Certificate.

Dealers can refund the new tire tax or gas-guzzler tax only when the original sale price is **fully refunded** to a purchaser on the return of a vehicle. Since these new taxes are flat taxes unlike the 8% tax and imposed regardless of sale price, they are not refundable when the sale price is partially refunded or otherwise adjusted.

Note: Dealers making refunds of tax in circumstances other than the above will be assessed the amount of the refund along with appropriate interest and penalty costs.

VEHICLE LEASES

Where you rent or lease a motor vehicle you must collect and remit retail sales tax on the total rental charge unless the vehicle is leased to purchasers who are exempt from tax. Retail sales tax is to be collected at 8% on the total rental charge including:

- basic rental charge
- tire tax and gas-guzzler tax where applicable
- surcharges based on the length of the rental or distance travelled
- delivery and handling charges
- maintenance and repair charges
- finance or interest charges
- service contract charges
- charges for collision damage waiver
- amounts billed for repair or damages.

The tax is collectable on the due date of each rental payment and must be remitted even if the tax has not been paid by the lessee.

Where the first and last rental payments are made at the time the lease is entered into, tax must be collected and remitted on both payments at this time.

A refundable security deposit is not subject to tax.

The amount paid by a lessee to exercise an option to purchase is taxable even if the lessee is buying the vehicle for resale.

It should be noted that a contract containing an agreement to purchase, rather than an option to purchase, is considered to be a conditional sales contract. In this case, tax is collected and remitted on the total purchase price at the time the transaction is arranged.

All additional charges to a lessee at the termination of a lease are taxable. These include penalties or other charges associated with the early termination of a lease.

A lessee may receive a credit at the termination of a lease where the lessor subsequently sells the vehicle to a third party for more than book value. If the lease agreement specifically states that such a credit is an adjustment to the rent previously paid, a corresponding tax credit may be given to the lessee.

Upon early termination of a long-term lease involving amortized tire and gas-guzzler taxes (see below), the balance of these taxes payable will be collected in full.

MANUFACTURERS' REBATES ON LEASED VEHICLES

Automobile manufacturers may provide a rebate to persons who lease their vehicles from automobile dealers. In most cases, the lessee assigns the rebate to the dealer who uses it to reduce the monthly rental payments.

Retail sales tax applies to the lease payments **before** allowance for the manufacturer's rebate. Dealers should treat the rebate as an additional payment made at the beginning of the lease on behalf of the lessee by a third party (the manufacturer). Accordingly, you charge sales tax on this additional payment.

A leasing company purchasing vehicles to lease may also receive manufacturers' rebates and assign them to the dealer. These rebates are partial payment for vehicles purchased exempt of tax for leasing purposes.

The rebates do not relate to subsequent lease transactions between the leasing company and the vehicle lessees. The leasing company is required to charge sales tax on the actual monthly payments it bills to the lessees.

NEW TIRE TAX — RENTALS

Rental agencies must charge the new tire tax to the first customer who rents:

- a new vehicle that is rented for the first time for seven consecutive days or more after May 31, 1989, or
- a vehicle on which one or more replacement tires have been installed and the first rental with the replacement tires for seven consecutive days or more occurs after May 31, 1989.

As an alternative, rental agencies may use one of the following methods to account for the new tire tax on short term rentals of vehicles or equipment:

- Pay or account for the \$5 tire tax plus the applicable retail sales tax on each purchase of new pneumatic tires (whether as part of a new vehicle purchased for rental purposes or as replacements). The rental agency may then pass on the increased cost to their customers in the rental charges.
- Charge a percentage of 8.3% on all short term rentals entered into on or after June 1, 1989. Rental agencies choosing this option **must** indicate on customer invoices that this percentage represents retail sales tax at 8% plus an amount for tire tax.

After adopting one of these approved alternatives, rental agencies must apply it consistently.

The 8.3% rate will be reviewed annually. Early in 1990, the Retail Sales Tax Branch will survey car rental agencies to verify its accuracy and may adjust the percentage, effective June 1, 1990.

NEW TIRE TAX — LEASES

Leasing companies may use one of the following options:

- 1) Collect the new tire tax in full on the due date of the first lease payment. This method should be used if no gas-guzzler taxes are involved.
 - 2) If the leased car is subject to gas-guzzler tax, collect the new tire tax as well as the gas-guzzler tax in full on the due date of the first lease payment
- or**
- collect the new tire tax with the gas-guzzler tax over the term of the lease.

Dealers who lease **tires only** are required to charge tire tax on the first long term lease of new pneumatic tires after May 31, 1989. The \$5 tire tax is collectable in full on the due date of the first lease payment.

GAS-GUZZLER TAX — LEASES AND RENTALS

Leasing companies are required to add gas-guzzler tax to the charges for **new** fuel-inefficient passenger cars that are leased or rented out for the first time after June 30, 1989. The tax should be charged as follows:

- If the car is leased for a year or longer, the gas-guzzler tax is included in the charges to the first customer. The tax may be collected in full, together with all applicable tire taxes, on the first lease payment due on or after July 1, 1989, or collected with the tire tax over the term of the lease.
- If the car is rented for shorter periods, the total gas-guzzler tax must be charged, collected and remitted within six months of its first rental or lease.

INSURANCE PREMIUMS AND LICENSING

Long Term Lease (12 months or longer)

Charges made under a long term lease to cover the lessor's cost of insuring and licensing a leased vehicle will not be taxable if shown separately on the billing to the customer.

Short Term Lease (less than 12 months)

All charges under a short term lease for licensing or insurance are taxable. A charge for insurance premium is not taxable if the following conditions apply—

- it is segregated on the lease contract or invoice; and
- the lessor is collecting it on behalf of the insurance company.

REPAIRS

Repairs that are the subject of an insurance claim are taxable. However, where charges for the insurance policy have been included in the lease charge and tax charged on them, the lessor may purchase the related repairs exempt from tax.

This applies to both long and short term leases.

VEHICLES POWERED BY ALTERNATIVE FUELS

Retail sales tax refunds are available on motor vehicles licensed under the Highway Traffic Act and powered exclusively by propane or other manufactured gas, ethanol, methanol, natural gas, or electricity. In addition, refunds are available on dual-powered vehicles that use the alternative fuels mentioned above, but can also be powered by gasoline or diesel fuel. Refunds are not available on vehicles that use a mixture of an alternative fuel and gasoline or diesel fuel. Refund claims must be received by the Retail Sales Tax Branch within three years of paying the tax.

Purchases

Purchasers of motor vehicles described above can obtain sales tax refunds. Refunds are limited to \$750 for propane powered vehicles and \$1,000 for vehicles powered by other alternative fuels. **The dollar limits do not apply to buses.**

Leases—Long Term

People who lease the motor vehicles described above under long term leases will be entitled to sales tax refunds to a maximum of \$750 on propane powered vehicles and \$1,000 for vehicles powered by other alternative fuels. **The lessees of buses are not subject to these dollar limits.** For this purpose, a long term lease is for one year or longer. Eligible people may use one of three options for filing refund claims:

- filing after the maximum amount of tax refundable has been paid;
- filing at the end of the lease contract; or
- filing at the end of each expired 12-month period.

Refund claims must be received by the Retail Sales Tax Branch within three years of paying the tax.

Converted Vehicles

Purchasers of motor vehicles converted to operate exclusively on an alternative fuel or as dual-powered vehicles may qualify for a sales tax refund. Refunds of tax paid on vehicles including conversion are limited to \$750 for propane vehicles or \$1,000 for vehicles converted to operate on other alternative fuels. **These refund limits do not apply to buses.**

In addition, the gas-guzzler tax paid on fuel-inefficient passenger cars may be refunded in full when the cars are converted to operate exclusively on an alternative fuel. Conversions to dual power will not qualify for a refund of the gas-guzzler tax.

Effective May 18, 1989, to qualify for refunds of sales tax, including gas-guzzler tax where applicable, purchasers must enter into a **written** contract for conversion within 90 days of the purchase date of the vehicle and the conversion must be completed within 180 days of the vehicle purchase date.

Vehicles purchased on or after February 17, 1989 will qualify under the above conditions. For a vehicle purchased **before** February 17, 1989 to qualify, the conversion contract must have been entered into within 30 days of purchase and the conversion completed within 90 days.

Purchasers who convert their vehicles to run on an alternative fuel outside these eligibility periods are not entitled to a refund of the tax paid on their vehicles. They may, however, apply for a refund of the sales tax paid on the conversion kit and the labour to install it.

DEALER'S OWN USE OF VEHICLES

Retail sales tax, including the new tire tax and gas-guzzler tax, applies to vehicles taken from a dealer's inventory for business or personal use by staff, family or others.

New Tire Tax

Effective June 1, 1989, dealers are required to pay all applicable tire taxes when they take vehicles from their exempt inventory for own use, reporting the tax on line 3 of their sales tax returns.

Gas-Guzzler Tax

Effective July 1, 1989, the gas-guzzler tax will be payable in full when dealers take new fuel-inefficient passenger cars from their exempt inventory for business or personal use.

If the fuel consumption rating is not available at that time, the maximum gas-guzzler tax of \$3,500 will apply.

Retail Sales Tax at 8%

Dealers must pay 8% retail sales tax on a formula basis monthly when vehicles are taken from exempt inventory. Vehicles on which tax is payable include passenger cars, light trucks, vans, parts and service trucks that are not capitalized as fixed assets. Tax on own use is reported on line 3 of the monthly tax returns.

The monthly tax payable is calculated using the following formula:

$$\frac{\text{Average Vehicle Sale Price} \times \text{No. of Vehicles Used} \times 3\% \times \text{Retail Sales Tax at 8\%}}{1}$$

The average sale price is arrived at as follows:

$$\frac{\text{Total Value (including all applicable Tire Tax and Gas-Guzzler Tax) of New \& Used Vehicles Sold in the Month (Before Trade-in)}}{\text{Total Number of New \& Used Vehicles Sold in the Month}}$$

Tax is due even if the dealership made no sales during the reporting month. In this case, use the average sale price from the last month in which sales were made.

The above formula applies to automobiles, and light trucks and vans having a gross vehicle mass rating of 4,100 kilograms or less.

Where other vehicles in excess of 4,100 kilograms are temporarily taken from inventory for business or personal use, tax calculated as follows is payable for each month of use:

$$1/36 \times \text{Cost of Vehicle (including Tire Tax)} \times 8\% \text{ Sales Tax}$$

Where a vehicle such as a parts truck is taken out of inventory for use in the business and capitalized as a fixed asset, tax is payable on the cost of the vehicle. Where such a vehicle is returned to inventory and another capitalized at the same time, tax is payable only on the difference between the cost of the replacement vehicle and the book value of the vehicle returned to inventory.

VEHICLES USED FOR DEMONSTRATION PURPOSES

Unregistered vehicles used **solely** for sale demonstration purposes are not subject to tax until sold.

REPAIRS AND SERVICE

All vehicle repair parts and labour are taxable and tax must be charged on your selling price. This includes parts and labour paid for by insurance companies in settlement of an insurance claim.

Effective June 1, 1989, the \$5 tire tax applies to all new pneumatic tires. When you sell new tires, the tire tax forms part of their value. You are required to charge retail sales tax at 8% on the selling price of the tires, including the tire tax. For further information on the new tire tax, refer to the Ontario Sales Tax Guide 713.

Examples of Taxable Materials

- parts such as filters, sparkplugs, brakes, mufflers, shock absorbers, bumpers and tires
- windshields and mouldings
- accessories
- oil, grease, antifreeze, and other fluids
- materials charged separately as “shop supplies”
- paint, protective finish, undercoating, body filler
- conversion kits

Examples of Taxable Labour

- engine tune-up, oil change, and chassis lubrication
- wheel alignment
- tire installation or removal, balancing and repair
- muffler installation or removal
- radiator recore
- battery charging
- rust-proofing and finish protection
- repair and repainting of auto bodies
- installation or removal of items such as parts, fenders, rocker panels and bumpers
- diagnosis, when further work is done at the same time
- conversion of vehicles to operate on alternative fuels

Examples of Tax-Exempt Service

- parking and storage
- towing and emergency battery boosting

- car washing including waxing at the same time, and engine shampooing
- diagnosis, safety inspection, and estimates when **no work** is done at the same time

You must pay tax on all materials which are used in providing a tax exempt labour service.

Tax does not have to be charged on repairs to vehicles owned by:

- status Indians living on reserves if the vehicle is registered to an address on the reserve,
- people holding diplomatic exemption cards.

To obtain the exemption, status Indians must present their federal identification card while diplomatic personnel must present their diplomatic exemption card. You must record the card number on the sales invoice.

WARRANTY, EXTENDED WARRANTY AND MAINTENANCE CONTRACTS

Charges to your customers for these contracts are subject to tax as are any other charges your customer is required to pay at the time the work is done.

Customers who have tires replaced under warranty at no charge are not required to pay the tire tax; however, if a customer is required to pay **any amount** as an adjustment to replace a defective tire, the \$5 tire tax will apply.

Tax does not apply to your billings to the manufacturer for work performed under warranty.

You may purchase repair parts and materials used in performing these contracts tax exempt. This exemption also applies to parts and labour used in no-charge adjustments.

TAXABLE SHOP SUPPLIES

You must pay sales tax to your suppliers on items and materials that you use but do not sell to customers directly, including:

- shop tools and equipment
- solvents used for cleaning purposes
- soap and cloths
- masking tape, sandpaper and other supplies.

Items such as masking tape, sandpaper and other supplies purchased by a repairer are for the use of the repairer rather than the customer. You must pay tax on these purchases regardless of the fact that they may be segregated and taxed on the invoice to the customer. Parts that are installed on a vehicle, however, are purchased for the use of the vehicle owner and you may purchase them exempt of tax. This also includes paint, paint thinners and reducers.

The information in this publication is only a guideline. For more specific information, please consult the Retail Sales Tax Act or contact your local Retail Sales Tax Office listed in the blue pages of your telephone directory.



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